CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

December 13, 2010

The Investment Committee met on Monday, December 13, 2010 at the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 11:10 a.m. and the following members were present:

George Diehr, Chair
Tony Oliveira, Vice Chair
John Chiang
Patricia Clarey
Dan Dunmoyer
Debbie Endsley, represented by Michelle Berklacich
Rob Feckner
JJ Jelincic
Henry Jones
Bill Lockyer, represented by Bill Dowell
Priya Mathur
Louis F. Moret

Terry McGuire represented John Chiang

Items were taken out of order.

AGENDA ITEM 1 – APPROVAL OF NOVEMBER 2010 MEETING MINUTES

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** that the November 15, 2010 Open Session minutes be approved as presented.

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AGENDA ITEM 2 – RECOMMENDATIONS OF SPECIAL REVIEW OF PLACEMENT AGENTS

Anne Stausboll, Chief Executive Officer, introduced the item and outlined the main objectives in launching the Special Review of Placement Agents:

- To determine if the interests of CalPERS constituents, members and employers had been compromised by the payment of placement agent fees and related activities
- 2. To look within CalPERS to determine if those within our own organization, past and present, have lived up to the ethical standards that we set for this institution
- 3. To look at issues regarding our investment processes and how business is conducted with our outside investment partners

The purpose of this item is to release the observations and recommendations about remedial actions. The review is ongoing and a final report is scheduled for early 2011.

Peter Mixon, General Counsel, presented the 12 recommendations.

The Committee reviewed the observations and recommendations of the Special Review of Placement Agents and directed staff to agendize discussion of the recommendations and an implementation plan as soon as possible.

AGENDA ITEM 3 – PUBLIC EMPLOYEES' RETIREMENT FUND (PERF) STRATEGIC ASSET ALLOCATION – RECOMMENDATION

Joseph Dear, Chief Investment Officer; Farouki Majeed, Senior Investment Officer; and Rick Roth, Senior Portfolio Manager, presented the item.

Also available to respond to questions from the Committee were:

- Alan Milligan, Chief Actuary
- Michael Schlachter and Andrew Junkin, Wilshire Consulting
- Allan Emkin, Pension Consulting Alliance

At the November 8 and 9, 2010 Asset Liability Management Workshop, staff presented the following objectives for the Committee's consideration:

- Selection of Alternative Asset Classification for the Policy Portfolio based on macro risk factors
- 2. Selection of Policy Portfolio from among alternatives based on the Committee's risk tolerance as indicated by Decision Factor scores.

Based on Committee responses and directives to staff at the Workshop, staff presented final recommendations for Alternative Asset Classification, Asset Allocation Mix, and Asset Class Ranges. Staff and consultants responded to questions from the Committee regarding the strategies presented and anticipated effect on the portfolio.

On **MOTION** by Mr. Jelincic, **SECONDED** and **CARRIED** to adopt the new Alternative Asset Classification shown below:

Alternative Asset Classification	Consists of	Purpose
Growth	Public Equity Private Equity	Positive exposure to economic growth - equity risk premium
Income	Fixed Income	Provide income return
Real	Real Estate Infrastructure Forestland	Provide long horizon income return that is less sensitive to inflation risk
Inflation	Commodities Inflation-Linked Bonds	Public market investments with positive inflation exposure
Liquidity	Cash Nominal Government Bonds	Hedge equity and deflation risks provide liquidity

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to adopt the Asset Allocation Mix shown below:

Portfolio A7

COMPOUND RETURN	7.38%
VOLATILITY	11.92%
AVERAGE RETURN	8.04%
INCOME - Fixed Income	15.9%
	49.1%
GROWTH - Public Equity	
GROWTH - Private Equity	14.0%
REAL - Real Estate	10.0%
REAL - Infrastructure & Forestland	3.0%
INFLATION - Inflation Linked Bonds	3.0%
INFLATION - Commodities	1.0%
LIQUIDITY - Treasuries	4.0%
INCOME	15.9%
GROWTH	63.1%
REAL	13.0%
INFLATION-LINKED	4.0%
LIQUIDITY	4.0%

On MOTION by Ms. Mathur, SECONDED and CARRIED to adopt the Asset Class Ranges shown below:

	Proposed	New
Alternative Asset Classification	<u>Target</u>	<u>Range</u>
Growth (Public & Private Equity)	63%	±7%
Income (Fixed Income)	16%	±5%
Real	13%	±5%
Inflation	4%	±3%
Liquidity	4%	±3%

AGENDA ITEM 11 – PUBLIC COMMENT

The following individuals expressed concerns regarding TowerBrook Investors management of BevMo.

- Deepak Pateriya, United Food and Commercial Workers
- Mario Munoz, Ken Thompson, and John Dillon, BevMo employees

The meeting recessed from 12:30 to 1:20 p.m.

AGENDA ITEM 4 – AFFILIATE INVESTMENT PROGRAMS, Member Home Loan Program Direction

Geraldine Jimenez, Division Chief, presented the item.

At the November 15, 2010 Investment Committee meeting, staff recommended suspending the CalPERS Member Home Loan Program and the Secured Personal Loan Program to new loans due to limited member value, limited member usage, and losses in member retirement benefits due to Secured Personal Loans. The Committee directed staff to communicate and collect feedback from employee and employer groups.

Staff provided a summary of the feedback received and outlined next steps if the suspension is approved.

The following individuals commented in favor of continuing the program with modifications:

- Dave Elder, interested party
- Aaron Stroud, Wells Fargo Home Mortgage
- Neal Johnson, SEIU

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the suspension of new loans for the Member Home Loan Program and the Secured Personal Loan Program.

AGENDA ITEM 5 - ANNUAL LEGISLATIVE REPORT, Sudan and Iran Divestment

Joseph Dear, Chief Investment Officer, presented the item for the Committee's consideration.

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to approve transmittal of the annual reports on companies with business operations in Sudan and Iran to the Legislature.

AGENDA ITEM 6 – TOTAL FUND, Contracts – Infrastructure Consultant Renewal

Kami Niebank, Division Chief, presented the item.

Staff summarized the activities that Meketa Investment Group, Inc. has provided to the Board and CalPERS Infrastructure Program since January 2009 and requested an extension of the Letter of Engagement using the current scope of services, which was set to expire on January 25, 2011. An extension of the current scope of services will be effective January 26, 2011, through March 1, 2012.

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** to approve the extension with Meketa Investment Group to act as the Board's Infrastructure Consultant.

AGENDA ITEM 7a – TOTAL FUND, CalPERS Total Fund Quarterly Report

Michael Schlachter and Andrew Junkin, Wilshire Consulting, provided a 2010 third quarter Total Fund Report on the performance of the Public Employees Retirement Fund. Executive Summaries were also provided for investment performance of the Affiliate Funds, Legislators' Fund, Employer's Retiree Benefit Trust, and the Supplemental Income Plans.

It was noted that CalPERS generated a total fund net return of 7.9% for the quarter and 10.4% for the 12-month period ending September 30, 2010. The total fund composite also beat its actuarial rate for the quarter as well as the one-year period, but continued to lag over longer-term periods.

Mike Moy, Pension Consulting Alliance (PCA), provided a review and assessment of the report as it relates to the Alternative Investment Management Program performance. AIM outperformed the Policy Index by 1.3% and the long-term policy by 1.6% over the latest 10-year period as of September 30, 2010.

Paul Mouchakkaa, PCA, provided a review and assessment of the report as it related to the Real Estate Program performance through September 30, 2010. The total Real Estate Portfolio produced a -1.0% return during the quarter and a -10.8% return over the trailing year compared to the Policy Index returns.

The Committee accepted the quarterly information report.

AGENDA ITEM 7b - TOTAL FUND, Risk Management Quarterly Update

Farouki Majeed, Senior Investment Officer, and Rick Roth, Senior Portfolio Manager, gave a quarterly update on Total Fund risk management. The following topics were highlighted:

- Total Fund Volatility
- Total Fund Volatility Trends
- Asset Class Volatility
- Concentration Measures
- Leverage
- Counterparty Exposure
- Liquidity

The Committee accepted the quarterly information update.

AGENDA ITEM 7c - TOTAL FUND, Master Custody Services Request For Proposal (RFP)

Matt Flynn, Division Chief, provided an update on the Master Custody Services Request for Proposal (RFP) Process. The update highlighted milestones completed since October 18, 2010, information obtained throughout the process, and the next steps.

The Committee accepted the information update.

AGENDA ITEM 8a – GLOBAL EQUITY, Consultant Review of Internal Corporate Governance Investments Program

Andrew Junkin, Wilshire Consulting, presented the item. Eric Baggesen, Senior Investment Officer, was available to respond to questions from the Committee.

Wilshire Consulting conducted a review of the internally managed Corporate Governance Investment Program. The review of the program included a review of personnel, investment process, external managers, and resources. Wilshire concluded that the Program is well managed, the investment approach is appropriate, staff has access to sufficient resources, and staff is aware of the risks and rewards associated with activist investing. Wilshire recommended the Investment Committee continue to support the program.

The Committee accepted the annual information report.

AGENDA ITEM 8b(1) – PROGRAM UPDATES – REAL ESTATE, Responsible Contractor (RCP) Program Annual Report

Ted Eliopoulos, Senior Investment Officer, and Laurie Weir, Portfolio Manager, presented the item.

Staff reported that for the fiscal year 2009-2010, combined investment manager compliance and Housing Program voluntary compliance totaled 97.9%. Real Estate program managers paid in excess of \$877 million toward RCP contracts for the reporting period.

Isaac Velez, Laborers Union, challenged the accuracy of the compliance rate and the exclusions from the Neutrality Trial Responsible Contractor Program Policy.

Staff noted that a review of the Policy began in the fall 2010 and will conclude in 2011.

The Committee accepted the annual report.

AGENDA ITEM 8b(2) – PROGRAM UPDATES – REAL ESTATE, 2009 Environmental Program Update

Ted Eliopoulos, Senior Investment Officer, and Laurie Weir, Portfolio Manager, presented the item.

Staff presented the final report on the five-year voluntary Energy Efficiency Goal. Over the five-year performance period, the portfolio surpassed the 20% Energy Efficiency Goal with a 22.8% total reduction in energy consumption compared with the baseline year of 2004. The portfolio achieved an energy reduction of 11.4% in 2009.

Staff is reviewing possible participation in various initiatives that may form the basis of a future environmental program for the Real Estate Unit. Staff intends to present Real Estate's proposed Strategic Plan to the Investment Committee in 2011.

The Committee accepted the information update.

AGENDA ITEM 8c-f - PROGRAM UPDATES

There were no items to report for the following programs:

- c. Alternative Investments Management (AIM)
- d. Inflation-Linked Asset Class (ILAC)
- e. Global Fixed Income
- f. Global Equity

AGENDA ITEM 9 – ACTIVITY REPORTS

The Committee accepted the following activity reports:

- a. 2010 Roadmap Accomplishments—Annual Summary Joseph Dear, Chief Investment Officer, summarized strategic priorities and accomplishments.
- b. Consolidated Investment Activity Report
- c. Chief Operating Investment Officer's Status Report

AGENDA ITEM 10 – AGENDA AND CALENDAR

The Committee accepted the following:

- a. Draft Agenda for February 14, 2011 Investment Committee Meeting
- b. 2011 Annual Agenda Item Calendar

AGENDA ITEM 11 – PUBLIC COMMENT (Continued)

Marguerite Young, SEIU, applauded the recommendations of the special review pertaining to Placement Agents and encouraged the Board to seriously consider the recommendations.

The meeting was adjourned at 3:00 p.m.

The next Investment Committee meeting is scheduled for February 14, 2011 in Sacramento, California.

STEPHEN W. KESSLER
Deputy Executive Officer
Operations